Pakistan, IMF agree to $5.3bn bailout package | Forex, Pakistan

Written by Administrator
Friday, 05 July 2013 09:37 -

<p style="text-align: justify;" />ISLAMABAD : Pakistan and the International Monetary Fund agreed on Thursday to a $5.3 billion bailout package. An additional $2bn request will be considered by the IMF Executive Board on Sept 4.   </p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">Finance Minister Ishaq Dar and Jeffrey Franks, the head of the visiting IMF staff mission, told a joint news briefing that Pakistan would have to take a number of prior actions, including reduction in fiscal deficit, implementation of an energy plan to put the sector on a stable footing, revival of the privatisation programme and making monetary policy adjustments and, above all, getting these steps approved by the political leadership at the federal and provincial levels to qualify for presentation of the package to the IMF management and executive board for approval.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">Mr Dar said the two sides �have reached an agreement for a 3-year programme of at least $5.3bn under an Extended Fund Facility�.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">He said Pakistan had requested the IMF management through a conference call to increase the present level of access of 348 per cent of quota ($5.3bn) to 500pc of quota ($7.3bn) with appropriate front loading of disbursements to match Pakistan�s repayment obligations under the previous IMF program-me so that net outflows are not more than fresh disbursements.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">Answering a question about an increase in electricity rates as required under the programme, the minister said details of the tariff rationalisation would be announced by the prime minister as part of his energy plan, but the poorest of the poor would be protected from tariff adjustments.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">�The programme aims at stabilising Pakistan�s economy and creating an enabling environment for revival of growth,� he said. He pointed out a long list of policy directions to qualify for the programme approval by the IMF board.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">The list includes fiscal consolidation, containing inflation, resolution of energy crisis including settlement of circular debt, promotion of social safety nets, strengthening the financial sector, improving business climate, promoting foreign investment, restructuring public sector corporations, reviving the privatisation programme, strengthening corporate governance and building foreign exchange reserves with exchange rate stability.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">�This agreement will be reviewed by the IMF management and finalised before going to the executive board, which will consider the proposed agreement in early September, subject to the timely completion of prior actions to be taken by the authorities,� said Mr Franks.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">He said the entire amount of loan programme would be payable in three years (36 months) involving about 3pc floating interest rate and repayable over a period of 10 years, making it easier for the authorities to service outstanding loans.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">Mr Franks said the focus of the programme was economic growth for which the government would have to take some difficult decisions necessary to stabilise the economy.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">He hoped that the other donors would also increase their support to Pakistan as almost half of its requirements would be provided by the IMF while the remaining would have to be arranged through other lenders like the World Bank, Asian Development Bank and large bilateral lenders.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">He said Pakistan would have to take a number of prior actions to enable the IMF board to approve the $5.3bn package.</p> <p style="text-align: justify;">�</p> <p style="text-align:

justify;">The actions include reduction in fiscal deficit to 6 per cent of GDP, introduction of a comprehensive energy sector reform plan to contain shortages and put it on stable footing, tightening of monetary policy to keep inflation at an acceptable level, improving tax collection through administrative measures and plugging of loopholes in the shape of discretionary tax exemptions, strengthening of public sector enterprises and privatisation of some of them, simplification of trade policy, improvement in climate for doing business and protecting the social sector.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">Mr Franks said Pakistan would have to take the entire package to the Council of Common Interests for approval to ensure that federal and provincial governments were on the same page on fiscal consolidation. The condition for the CCI approval has been incorporated to ensure a broad and deep ownership of the bailout package and associated policy initiatives and reform process.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">The minister said the government had inherited a broken economy and Pakistan had been saddled with huge payment liabilities of the previous government to retire earlier IMF loans without having adequate foreign exchange reserves.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">�Resources from the previous loan were not efficiently utilised with the result that sufficient reserves are not available to service them. We are paying others� borrowings,� he said when reminded his party�s slogan of breaking the begging bowl.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">The public debt, which was about Rs3 trillion in 1999, has increased to Rs14.5trn as of June 30, 2013, and almost Rs2trn of which was built up only last year. The debt-to-GDP ratio has increased to 63pc that will reduce to 61pc this year with a further 2pc cut next year. �You have to appreciate that your net loan is not going up. We are not adding to loan, but taking loans to reduce debt stock,� Mr Dar said.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">He said the government had negotiated a home-grown programme. �We are entering a new programme for good of the country. A better tomorrow dawns only when requisite pains are borne today, the pains which are the result of the fiscal and financial indiscipline practised in the last few years.�</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">Responding to a question about privatisation, the minister said Pakistan was injecting Rs450bn into the loss-making entities, which was not sustainable.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">The government would have to improve companies like Railways and PIA to make them profitable and privatise others which are profitable to reduce this bleeding, he said.</p> <p style="text-align: justify;">�</p> <p style="text-align: justify;">Mr Dar said the IMF had demanded elimination of all tax exemptions, but en bloc reversal of statutory regulatory orders (SROs) was not possible and the fund had been convinced that charitable organisations like Imran Khan�s cancer hospital could not be subjected to commercial taxes. He, however, said the two sides had agreed to review all SROs and do away with those created through nepotism and favouritism.

Courtesy: �Dawn</p>